

Message Text

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ACTION EA-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-10 NSAE-00 TRSE-00 XMB-02 OPIC-03 SP-02
LAB-04 SIL-01 OMB-01 SS-15 STR-07 CEA-01 DOE-15
SOE-02 ABF-01 OES-07 SSO-00 NSCE-00 INRE-00
ICAE-00 /100 W
-----025493 150257Z /73

O 150216Z APR 78
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC IMMEDIATE 7094

C O N F I D E N T I A L SECTION 01 OF 02 TOKYO 06538

E.O. 11652: GDS
TAGS: ECON, ETRD, EFIN, JA, US
SUBJECT: SCHULTZE - PRIME MINISTER MEETING

PASS WHITE HOUSE FOR CEA, GRAMLEY AND GOULD

1. SUMMARY: IN ONE-HOUR LONG MEETING FUKUDA AND SCHULTZE REVIEWED RESPECTIVE NATIONAL ECONOMIES. FUKUDA REITERATED CONFIDENCE JAPANESE GROWTH TARGET WOULD BE MET. HE SPOKE CANDIDLY ABOUT HIS EXPECTATION THAT U.S. AS WORLD'S LARGEST COUNTRY WHOSE CURRENCY IS KEY CURRENCY WOULD SHOW GREATER CONCERN ABOUT DECLINE OF DOLLAR LEST FURTHER DECLINES LEAD TO OIL PRICE INCREASE, REVERSAL OF PROGRESS OF LAST FIVE YEARS AND RESULTANT POLITICAL CONFUSION AND CHAOS. SCHULTZE REPLIED THAT U.S. SAW A PATTERN OF MUTUAL OBLIGATIONS FOR INTERESTED COUNTRIES TO WORK ON FUNDAMENTALS. END SUMMARY.

2. SCHULTZE HAD ONE-HOUR PRE-LUNCHEON CONVERSATION WITH PRIME MINISTER APRIL 14. MIYAZAWA AND MIYAZAKI OF PA AND OWADA, PRIME MINISTER'S SECRETARY WERE ON JAPANESE SIDE. SCHULTZ WAS ACCOMPANIED BY AMBASSADOR AND EMIN.

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3. PRIME MINISTER REFERRED TO PREVIOUS CONVERSATIONS WITH PRESIDENT NOTING THAT JAPANESE RECOVERY HAD BEEN PROCEEDING REASONABLY SMOOTHLY AFTER OIL PRICES BUT THAT DOLLAR INSTABILITY HAD AFFECTED THE YEN IN RECENT MONTHS AND CAUSED JAPANESE GROWTH PERFORMANCE TO GO DOWN TO 5.3 PERCENT FOR JFY 1977. HE SAID THERE WERE VARIOUS VIEWS ABOUT JAPAN'S ABILITY TO REACH SEVEN PERCENT GROWTH

IN FY 1978 BUT HIS OPINION WAS THAT JAPAN CAN, WILL AND MUST OBTAIN SEVEN PERCENT. HOWEVER, REALIZING THE GOAL IS EASIER SAID THAN DONE. JAPAN HAD PAID THE PRICE BY UNDERTAKING FISCAL MEASURES WHOSE IMPACT WILL BE WITH JAPAN FOR YEARS TO COME BUT FELT IT MUST DO SO TO REACH GROWTH TARGET. REGARDING THE CURRENT ACCOUNTS SURPLUS, HE SAID JAPAN WAS CURBING EXPORTS AND EXPANDING IMPORTS INCLUDED RACKING ITS BRAIN FOR A PROGRAM OF EMERGENCY IMPORTS. HE URGED U.S. TO UNDERSTAND THAT JAPAN WAS MAKING SINCERE AND ENERGETIC EFFORTS TO REACH THE TARGETS DISCUSSED WITH THE U.S.

4. TURNING TO THE WORLD ECONOMY HE NOTED PRESIDENT WAS FAMILIAR WITH HIS VIEWS FROM LONDON SUMMIT. HE SAID COUNTRIES HAD AGREED AT LONDON ON GROWTH AND CURRENT ACCOUNT TARGETS BUT THAT NO ONE HAD REACHED THEM AND THAT THEREFORE A TENDENCY HAD DEVELOPED TO CRITICIZE EACH OTHER. WHILE AN EXCHANGE OF CANDID VIEWS IS GOOD, CALLING NAMES AND GRIPING SHOULD NOT OCCUR BECAUSE THERE IS A SERIOUS RISK OF PUSHING WORLD IN UNDESIRABLE DIRECTIONS JUST WHEN WE ARE IN CRITICAL NEED OF HARMONY. IN THIS SPIRIT FUKUDA SAID HE WISHED TO ADDRESS SCHULTZE IN TOTAL CANDOR AND SAY WHAT HE WOULD LIKE TO EXPECT FROM U.S. HE SAID THE U.S. WAS URGING OTHERS TO EXPAND THEIR ECONOMIES AND REFLATE AND THAT HE WAS HAPPY TO TAKE THIS ADVICE. BUT, AFTER ALL, U.S. IS WORLD'S LARGEST
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COUNTRY AND ITS CURRENCY IS A KEY CURRENCY. HE HOPED U.S. WOULD SHOW GREATER CONCERN ABOUT DECLINE OF ITS CURRENCY. HE SAID HE BELIEVED FURTHER DECLINES WOULD SEVERELY AFFECT FOREIGN EXCHANGE RATES, LEAD TO INCREASES IN U.S. PRICES AND INFLATION WITH SERIOUS EFFECTS ON WHOLE WORLD.

5. FUKUDA ASKED WHETHER SCHULTZE BELIEVED OIL COUNTRIES WOULD CONTINUE TO ACCEPT DOLLARS. HE SAID ONE MIGHT ARGUE THEY HAVE NO WHERE ELSE TO GO BUT HE IS WORRIED THAT THEY MAY ASK FOR PRICE INCREASES WHICH WOULD PUSH US BACK TO THE BAD DAYS OF FIVE YEARS AGO, BRINGING CHAOS TO THE WORLD ECONOMY, PUSHING THE DOLLAR DOWN FURTHER. FUKUDA SAID HE BELIEVES WE MUST COME UP WITH INGENIOUS EFFORTS AND PROPER ATTITUDES SO THAT THE WORLD OUTLOOK DOES NOT BECOME EVEN CLOUDIER, LEADING TO POLITICAL CONFUSION AND CHAOS, NOT IN THE COMMUNIST WORLD BUT IN THE FREE WORLD AND UNDERMINE PERMANENT CONDITIONS OF PEACE.

6. SCHULTZE CONVEYED PRESIDENT'S WARM REGARDS, DESCRIBED USEFUL MEETINGS WITH MIYAZAWA AND EPA.

7. SCHULTZE SAID BOTH COUNTRIES MUST FACE UP TO THE ECONOMIC PROBLEMS AND THAT THEY SHOULD BE ADDRESSED NOT AS ONE-WAY OBLIGATIONS BUT AS A SET OF MUTUAL OBLIGATIONS. U.S., HE SAID, FELT SOLUTION LAY IN ATTACK ON FUNDAMENTAL CAUSES OF CURRENCY INSTABILITY. HE OUTLINED THE THREE AREAS WHERE THE U.S. ECONOMIC OBJECTIVES ARE IMPORTANT FOR U.S. AND REST OF WORLD. ON GROWTH, HE SAID,

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C O N F I D E N T I A L SECTION 02 OF 02 TOKYO 06538

PASS WHITE HOUSE FOR CEA, GRAMLEY AND GOULD

U.S. HAD DONE WELL, ACHIEVING TARGET SET AT LONDON SUMMIT. HE NOTED THAT ON ENERGY AND INFLATION WE HAD SO FAR DONE LESS WELL BUT THAT PROGRAMS WERE UNDERWAY TO DEAL WITH THESE PROBLEMS.

8. SCHULTZE SAID HE WOULD RESPOND TO PRIME MINISTER WITH EQUAL CANDOR ON FOREIGN EXCHANGE RATES. HE SAID WHAT HAS HAPPENED TO THE DOLLAR IS NOT A MIRROR IMAGE OF WHAT HAS HAPPENED TO THE YEN. WHERE DOLLAR HAS FALLEN 5-1/2 PERCENT AGAINST THE AVERAGE OF 16 OTHER INDUSTRIAL COUNTRIES, YEN HAS RISEN BY 20-25 PERCENT. HE SAID U.S. RECOGNIZES ITS OBLIGATIONS AS LARGEST ECONOMY AND AS A KEY CURRENCY COUNTRY BUT AT THE SAME TIME HE SAID WE BELIEVE THERE IS NO SUBSTITUTE FOR EACH COUNTRY DEALING WITH FUNDAMENTALS. HE OUTLINED OUR PROGRESS ON GROWTH, ENERGY AND INFLATION. HE SAID U.S. APPRECIATED AND WELCOMED OBJECTIVES SET BY FUKUDA GOVERNMENT AND STEPS TAKEN TO ACHIEVE OBLIGATIONS.

REGARDING THE IMPACT OF YEN APPRECIATION ON THE GOALS,
HE SAID WE RECOGNIZED THAT WHILE REALIZATION OF THE GOALS
WAS MADE MORE DIFFICULT IN THE SHORT TERM, IN THE LONG
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TERM YEN APPRECIATION SHOULD LEAD TO DESIRABLE ADJUST-
MENTS.

9. SCHULTZE NOTED THAT THERE IS A RECIPROCAL RELATION-
SHIP BETWEEN ACHIEVEMENT OF THE GROWTH AND CURRENT
ACCOUNT OBJECTIVES AND WHAT HAPPENS TO THE YEN. JUST
AS THROUGH THE J-CURVE APPRECIATION RAISES THE CURRENT
ACCOUNT SURPLUS, CONVERSELY, A LARGER AND RISING CURRENT
ACCOUNT SURPLUS TENDS TO CONTRIBUTE TO APPRECIATION.
ANY BELIEF IN WORLD MONEY MARKETS THAT JAPAN'S OBJECTIVES
WILL NOT BE MET AFFECTS THE YEN. HE NOTED THAT IN
DISCUSSIONS WITH EPA IT HAD BEEN EXPLAINED THAT PRIVATE
FORECASTS WERE MORE PESSIMISTIC THAN GOVERNMENT. HE
SAID THAT WHAT WAS IMPORTANT WAS NOT THE ACCURACY OF
FORECASTS (THEY ARE OFTEN IN ERROR) BUT THE COMMITMENT
TO TAKE STEPS TO ACHIEVE THE GOALS IF IT APPEARED THEY
WERE NOT BEING MET. AS TO THE OTHER MEASURES, HE NOTED
THE IMPORTANCE OF LIBERALIZATION OF TRADE THROUGH
SPEEDY IMPLEMENTATION OF STRAUSS-USHIBA JOINT STATEMENT,
VIGOROUS AND BOLD JAPANESE INITIATIVES IN MTN. HE SAID
HE RECOGNIZED DIFFICULTIES BOTH COUNTRIES HAD IN
ACHIEVING THEIR OBJECTIVES. HOWEVER, PARTICULARLY
REGARDING THE YEN RATE U.S. BELIEVES INTERVENTION TO
MAINTAIN A FIXED RATE OR A BAND OF RATES WAS NOT
DESIRABLE, EFFECTIVE OR ACHIEVABLE. WHAT WE NEEDED WAS
RECIPROCAL OBLIGATIONS TO WORK ON FUNDAMENTALS. HE SAID
HE WAS PREPARED TO LISTEN TO ANY SUGGESTIONS ABOUT HOW
WE CAN HELP EACH OTHER ACHIEVE OUR MUTUAL OBJECTIVES.

10. FUKUDA DID NOT PICK UP THE INVITATION AND IN TURN
ASKED FOR SCHULTZE'S VIEWS ON FUTURE OIL PRICES.
SCHULTZE REPLIED THAT IN THE SHORT RUN THERE SEEMED TO
BE A GOOD CHANCE OF HOLDING PRICES AT CURRENT LEVELS
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AND THAT IN THE LONG TERM EXPERTS SEEMED TO BE IN
DISAGREEMENT ABOUT WHEN THE CRUNCH WOULD COME, PERHAPS
IN THE EARLY 80'S OR THE MID 80'S BUT ALL RECOGNIZED
THAT IT WOULD COME.

11. FUKUDA ASKED WHAT THE EUROPEANS SAID TO US ABOUT

THE DECLINE OF THE DOLLAR. SCHULTZE REPLIED THAT THE GERMANS NOW SEEM TO BE MORE INTERESTED IN U.S. PROGRESS ON FUNDAMENTALS, SUCH AS ENERGY POLICY, THAN ON DIRECT MEASURES TO STABILIZE THE DOLLAR.

12. LUNCH TABLE CONVERSATION WAS GENERAL. FUKUDA MENTIONED INTEREST IN PURCHASE OF ALASKAN OIL. IN RESPONSE TO QUESTION HE SAID JAPAN WOULD NOT BE INTERESTED IN SHORT RANGE NON-RENEWABLE ARRANGEMENTS. FUKUDA SAID JAPAN HAD GIVEN APPROVAL TO INVESTMENT IN PETROCHEMICAL PLANT IN ALASKA BUT HAD NOT MADE ANY COMMITMENT TO PURCHASE OUTPUT THEREOF. FUKUDA NOTED CONVERSATIONS ON PREPAYMENT FOR URANIUM ENRICHMENT SERVICES WERE UNDERWAY.

13. SCHULTZE DESCRIBED PROJECT HE WAS HEADING TO GET PRELIMINARY VIEWS OF ECONOMISTS IN SEVEN PARTICIPATING COUNTRIES PRIOR TO BONN SUMMIT AND WELCOMED PRIME MINISTER'S IDEAS. FUKUDA, WHO MAY NOT HAVE CAUGHT THE QUESTION FULLY, RESPONDED THAT HIS LONG TERM CONCERN WAS OVER THE FUTURE DEVELOPMENT OF ALTERNATIVE ENERGY SOURCES AND THAT IN THE MEDIUM-TERM HE WAS MOST INTERESTED IN STABLE GROWTH WITHOUT INFLATION.
(CLEARED WITH SCHULTZE.) MANSFIELD

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